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SUBJECT: Mozambique - Cahora Bassa Dam Agreement Signed

Ref: 05 Maputo 1449

11. On October 31, in Maputo, Portuguese Prime Minister Jose Socrates and President Armando Guebuza signed an agreement under which Mozambique will acquire from Portugal an additional 67 percent of the shares of the Cahora Bassa dam operating company, Hidroelectrica de Cahora Bassa (HCB). Mozambique will own the shares once the GRM pays Portugal \$950 million, which the agreement stipulates Mozambique must do within a year. Portugal currently holds 82 percent of the shares of HCB and Mozambique 18 percent; after the sale, Mozambique will own 85 percent.

12. The agreement comes almost exactly one year after officials from the two governments signed an MOU in Lisbon on November 2, 2005, on transferring ownership (reftel). Under the MOU, the transfer agreement was to have been signed within two months. However the European Union's statistical body, Eurostat, delayed the signing as it carefully reviewed the MOU to see whether Portugal had accounted properly for the transaction in a way that would allow it to comply with its EU budget targets. In the end, according to press reports, Eurostat chose to view the sale as the privatization of a Portuguese asset rather than a form of debt forgiveness to Mozambique. (Note - the Portuguese originally wanted \$2 billion for the dam, but later agreed to sell it for just \$950 million. End note.)

13. According to press reports, Mozambique intends to pay the \$950 million to Portugal by borrowing against future electricity sales. In 2004 Mozambique earned just over \$100 million in electricity exports from the dam (more recent figures are not yet available). More than half of the dam's current generating capacity of approximately 1800 megawatts goes to South Africa - 1100 megawatts. Zimbabwe purchases another 450 megawatts. The remainder is used within Mozambique.

14. Comment: President Guebuza declared the agreement "removed the last redoubt of foreign domination" of the past 500 years, while at the same time praising the Portuguese for their success in winning Eurostat flexibility. He also pointed to the future, noting the agreement opened "great perspectives for the national energy sector." Guebuza doubtless was referring to plans to construct another dam 70 kilometers downstream on the Zambezi river at Mepanda Ncua, with more than \$2 billion in already promised Chinese funding.

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